

# QUARTERLY REPORT

LICENSEE: BOARDWALK REGENCY CORPORATION (Caesars Atlantic City)

FOR THE QUARTER ENDED DECEMBER 31, 2004

TO THE  
CASINO CONTROL COMMISSION  
OF THE  
STATE OF NEW JERSEY

# BALANCE SHEETS

AS OF DECEMBER 31, 2004 AND 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	<b>ASSETS</b>		
	Current Assets:		
1	Cash and Cash Equivalents.....	\$ 22,437	\$ 28,937
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts-(2004, \$7,834; 2003, \$7,207).....Note 2.....	118,838	109,938
4	Inventories.....Note 1.....	2,416	2,826
5	Prepaid Expenses and Other Current Assets.....	3,823	3,224
6	Total Current Assets.....	147,514	144,925
7	Investments, Advances, and Receivables.....Note 3.....	16,078	17,896
8	Property and Equipment - Gross.....Notes 1, 4 & 10.....	922,105	903,364
9	Less: Accumulated Depreciation and Amortization.....	(389,603)	(376,063)
10	Property and Equipment - Net.....	532,502	527,301
11	Other Assets.....Note 5.....	25,086	38
12	Total Assets.....	\$ 721,180	\$ 690,160
	<b>LIABILITIES AND EQUITY</b>		
	Current Liabilities:		
13	Accounts Payable.....	\$ 11,100	\$ 6,727
14	Notes Payable.....Note 6.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates.....Note 9.....	-	-
16	Other.....Note 10.....	31	61
17	Income Taxes Payable and Accrued.....Note 1.....	-	-
18	Other Accrued Expenses.....Note 7.....	36,759	31,684
19	Other Current Liabilities.....Note 8.....	66,594	63,690
20	Total Current Liabilities.....	114,484	102,162
	Long-Term Debt:		
21	Due to Affiliates.....Note 9.....	518,330	518,330
22	Other.....Note 10.....	661	692
23	Deferred Credits.....	-	-
24	Other Liabilities.....	6,232	5,840
25	Commitments and Contingencies.....		
26	Total Liabilities.....	639,707	627,024
27	Stockholders', Partners', or Proprietor's Equity.....	81,473	63,136
28	Total Liabilities and Equity.....	\$ 721,180	\$ 690,160

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# STATEMENTS OF INCOME

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2004 AND 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	Revenue:		
1	Casino.....Note 1.....	\$ 488,825	\$ 511,243
2	Rooms.....	35,042	35,778
3	Food and Beverage.....	59,307	69,245
4	Other.....	19,408	21,516
5	Total Revenue.....	602,582	637,782
6	Less: Promotional Allowances.....Note 1.....	117,049	131,981
7	Net Revenue.....	485,533	505,801
	Costs and Expenses:		
8	Cost of Goods and Services.....	259,128	275,391
9	Selling, General, and Administrative.....	74,871	63,415
10	Provision for Doubtful Accounts.....	2,653	2,453
11	Total Costs and Expenses.....	336,652	341,259
12	Gross Operating Profit.....	148,881	164,542
13	Depreciation and Amortization.....Note 1.....	34,406	36,986
	Charges from Affiliates Other than Interest:		
14	Management Fees.....Note 11.....	15,884	16,678
15	Other.....Note 11.....	6,484	6,442
16	Income (Loss) from Operations.....	92,107	104,436
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....Note 6 & 9.....	(42,905)	(43,887)
18	Interest (Expense) - External.....Note 10.....	(469)	(467)
19	Investment Alternative Tax and Related Income (Expense) - Note 1.....	(1,190)	(2,572)
20	Nonoperating Income (Expense) - Net.....Note 12.....	(12,671)	767
21	Total Other Income (Expenses).....	(57,235)	(46,159)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	34,872	58,277
23	Provision (Credit) for Income Taxes.....Note 1.....	16,535	24,951
24	Income (Loss) Before Extraordinary Items.....	18,337	33,326
	Extraordinary Items (Net of Income Taxes -		
25	20__, \$ ; 20__, \$ ).....		
26	Net Income (Loss).....	\$ 18,337	\$ 33,326

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED DECEMBER 31, 2004 AND 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	Revenue:		
1	Casino.....Note 1.....	\$ 106,197	\$ 115,999
2	Rooms.....	7,395	8,623
3	Food and Beverage.....	11,671	15,634
4	Other.....	3,267	5,191
5	Total Revenue.....	128,530	145,447
6	Less: Promotional Allowances.....Note 1.....	21,963	29,236
7	Net Revenue.....	106,567	116,211
	Costs and Expenses:		
8	Cost of Goods and Services.....	58,627	67,445
9	Selling, General, and Administrative.....	20,803	19,662
10	Provision for Doubtful Accounts.....	507	918
11	Total Costs and Expenses.....	79,937	88,025
12	Gross Operating Profit.....	26,630	28,186
13	Depreciation and Amortization.....Note 1.....	8,424	8,733
	Charges from Affiliates Other than Interest:		
14	Management Fees.....Note 11.....	3,425	4,105
15	Other.....Note 11.....	1,614	1,635
16	Income (Loss) from Operations.....	13,167	13,713
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....Note 6 & 9.....	(10,458)	(11,044)
18	Interest (Expense) - External.....Note 10.....	(115)	(113)
19	Investment Alternative Tax and Related Income (Expense) -.....Note 1.....	872	(704)
20	Nonoperating Income (Expense) - Net.....Note 1 & 12.....	(7,614)	117
21	Total Other Income (Expenses).....	(17,315)	(11,744)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	(4,148)	1,969
23	Provision (Credit) for Income Taxes.....Note 1.....	(1,123)	1,377
24	Income (Loss) Before Extraordinary Items.....	(3,025)	592
	Extraordinary Items (Net of Income Taxes -		
25	20__, \$ ; 20__, \$ ).....		
26	Net Income (Loss).....	\$ (3,025)	\$ 592

The accompanying notes are an integral part of the financial statements.  
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# STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003 AND DECEMBER 31, 2004

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	(h)	Retained Earnings (Accumulated) (Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
		Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2002.....	100	\$ 1,370		\$	\$ 46,065	\$	\$ (17,625)	\$ 29,810
2	Net Income (Loss) - 2003.....							33,326	33,326
3	Contribution to Paid-in-Capital.....								-
4	Dividends.....								-
5	Prior Period Adjustments.....								-
6	.....								-
7	.....								-
8	.....								-
9	.....								-
10	Balance, December 31, 2003.....	100	1,370	-	-	46,065	-	15,701	63,136
11	Net Income (Loss) - December 31, 2004....							18,337	18,337
12	Contribution to Paid-in -Capital.....								-
13	Dividends.....								-
14	Prior Period Adjustments.....								-
15	.....								-
16	.....								-
17	.....								-
18	.....								-
19	Balance, December 31, 2004.....	100	\$ 1,370	-	\$ -	\$ 46,065	\$ -	\$ 34,038	\$ 81,473

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2004 AND 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 45,193	\$ 84,018
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....	-	-
3	Proceeds from the Sale of Short-Term Investment Securities.....	-	-
4	Cash Outflows for Property and Equipment.....	(61,911)	(27,416)
5	Proceeds from Disposition of Property and Equipment.....	17,084	479
6	Purchase of Casino Reinvestment Obligations.....	(6,179)	(6,472)
7	Purchase of Other Investments and Loans/Advances made.....	6,807	1,644
8	Proceeds from Disposal of Investments and Collection of Advances and Long-Term Receivables.....	-	-
9	Cash Outflows to Acquire Business Entities.....	-	-
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(44,199)	(31,765)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....	-	-
14	Payments to Settle Short-Term Debt.....	-	-
15	Cash Proceeds from Issuance of Long-Term Debt.....	-	-
16	Costs of Issuing Debt.....	-	-
17	Payments to Settle Long-Term Debt.....	(61)	(391)
18	Cash Proceeds from Issuing Stock or Capital Contributions.....	-	-
19	Purchases of Treasury Stock.....	-	-
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22	Borrowings/Payments of Intercompany Payable.....	(7,433)	(59,986)
23	Net Cash Provided (Used) By Financing Activities.....	(7,494)	(60,377)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....	(6,500)	(8,124)
25	Cash and Cash Equivalents at Beginning of Period.....	28,937	37,061
26	Cash and Cash Equivalents at End of Period.....	\$ 22,437	\$ 28,937
	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ 43,375	\$ 44,355
28	Income Taxes.....	\$ 16,535	\$ 24,951

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2004 AND 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	NET CASH FLOWS FROM OPERATING ACTIVITIES:		
29	Net Income (Loss).....	\$ 18,337	\$ 33,326
	Noncash Items Included in Income and Cash Items Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment.....	34,394	36,972
31	Amortization of Other Assets.....	12	14
32	Amortization of Debt Discount or Premium.....	-	-
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	-	-
35	(Gain) Loss on Disposition of Property and Equipment.....	(111)	(479)
36	(Gain) Loss on Casino Reinvestment Obligations.....	1,190	2,572
37	(Gain) Loss from Other Investment Activities.....	-	-
	Net (Increase) Decrease in Receivables and Patrons'		
38	Checks.....	(1,467)	1,163
39	Net (Increase) Decrease in Inventories.....	410	311
40	Net (Increase) Decrease in Other Current Assets.....	(599)	(387)
41	Net (Increase) Decrease in Other Assets.....	(25,060)	18
42	Net Increase (Decrease) in Accounts Payable.....	4,373	(8,065)
	Net Increase (Decrease) in Other Current Liabilities		
43	Excluding Debt.....	7,979	18,205
	Net Increase (Decrease) in Other Noncurrent Liabilities		
44	Excluding Debt.....	392	368
45	Impairment Loss.....	5,343	-
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ 45,193	\$ 84,018

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:		
48	Additions to Property and Equipment.....	\$ 61,911	\$ 27,416
49	Less: Capital Lease Obligations Incurred.....		
50	Cash Outflows for Property and Equipment.....	\$ 61,911	\$ 27,416
	ACQUISITION OF BUSINESS ENTITIES:		
51	Property and Equipment Acquired.....		
52	Goodwill Acquired.....		
	Net Assets Acquired Other than Cash, Goodwill, and		
53	Property and Equipment.....		
54	Long-Term Debt Assumed.....		
55	Issuance of Stock or Capital Invested.....		
56	Cash Outflows to Acquire Business Entities.....	\$ -	\$ -
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:		
57	Total Issuances of Stock or Capital Contributions.....		
58	Less: Issuances to Settle Long-Term Debt.....		
59	Consideration in Acquisition of Business Entities.....		
60	Cash Proceeds from Issuing Stock or Capital Contributions.....	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: BOARDWALK REGENCY CORPORATION (Caesars Atlantic City)

## SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

(\$ IN THOUSANDS)

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2004

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	565,562	\$ 23,282		
2	Food	1,981,134	28,847		
3	Beverage	3,662,990	12,902		
4	Travel			62,334	\$ 4,752
5	Bus Program Cash	593,014	9,050		
6	Other Cash Complimentaries	696,960	36,011		
7	Entertainment	107,687	3,174	60,639	1,532
8	Retail & Non-Cash Gifts	137,987	3,241	137,603	15,341
9	Parking	75,339	75	75,339	226
10	Other*	3,400	467	224,627	2,355
11	Total	7,824,073	\$ 117,049	560,542	\$ 24,206

FOR THE THREE MONTHS ENDED DECEMBER 31, 2004

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	114,197	\$ 4,872		
2	Food	353,730	5,635		
3	Beverage	771,122	2,859		
4	Travel			4,473	\$ 1,162
5	Bus Program Cash	121,517	1,880		
6	Other Cash Complimentaries	142,391	5,436		
7	Entertainment	6,496	415	20,166	297
8	Retail & Non-Cash Gifts	30,798	734	33,631	4,312
9	Parking	46,580	46	46,580	140
10	Other*	433	86	47,618	636
11	Total	1,587,264	\$ 21,963	152,468	\$ 6,547

\* No single item within "Other" exceeds 5% of the total.

**Boardwalk Regency Corporation (Caesars Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts in thousands)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and basis of presentation**

Boardwalk Regency Corporation (the "Company"), a New Jersey corporation, is a wholly owned subsidiary of Caesars New Jersey, Inc. ("CNJ"), a New Jersey corporation. The Company owns and operates Caesars Atlantic City Hotel/Casino ("CAC") in Atlantic City, New Jersey. CNJ is a wholly owned subsidiary of Caesars World, Inc. ("CWI"), a Florida corporation, and CWI is a wholly owned subsidiary of Caesars Entertainment, Inc. ("CEI"). In early January 2004, CEI changed its name from Park Place Entertainment to Caesars Entertainment. The Company operates in one industry segment and all significant revenues arise from its casino and supporting hotel operations.

All adjustments to these financial statements have been recorded and are, in the opinion of management, necessary for a fair presentation of the balance sheets for the Company at December 31, 2004 and 2003, and its statements of income for the three and twelve months ended December 31, 2004 and 2003 and its statements of cash flows for the twelve months ended December 31, 2004 and 2003. All such adjustments were of a normal recurring nature.

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenue and expenses reported during the period. Actual results could differ from such estimates.

**Revenue recognition and promotional allowances**

Casino revenues represent the net revenue from gaming wins and losses. The revenues from hotel, food and beverage, and from theater ticket sales are recognized at the time the related services are performed. The Statement of Income reflects operating revenues including the retail value of complimentary services (also known as promotional allowances), which are deducted on a separate line to arrive at net revenues. Promotional allowances are provided to casino patrons without charge.

**Inventories**

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average cost method.

**Boardwalk Regency Corporation (Caesars Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts in thousands)**

**Property and equipment**

Property and equipment are stated at cost. Depreciation is provided on the straight-line basis over the estimated economic lives of the related assets. Depreciation expense was \$8,422 and \$8,732 for the three months ended December 31, 2004 and 2003, respectively; and \$34,394 and \$36,972 for the twelve months ended December 31, 2004 and 2003, respectively.

<u>Asset class</u>	<u>Life</u>
Buildings	40 years
Building improvements	3-10 years
Furniture, Fixtures and Equipment	3-10 years

**Connection Card Program**

During the 2nd quarter of 2003, the Company implemented the Connection Card Program. The Connection Card Program allows players to earn credits that may be accumulated over time and redeemed at their discretion at any CEI casino in the United States in accordance with the rules of the program. The Company records an estimated liability for the incremental cost of providing goods and services under the program at the time the credits are earned.

**Fair values of financial instruments**

The fair values of the Company's financial instruments including receivables, payables and debt, approximate their recorded book values at December 31, 2004 and 2003.

**Accounting Pronouncements**

In November 2002, the FASB issued Interpretation No ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others." FIN No. 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this Interpretation apply to guarantees issued or modified after December 31, 2002. Implementation of this Interpretation did not have a material impact on the Company's financial statements.

In 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 addresses consolidation of entities that are not controllable through voting interest or in which the equity investors do not bear the residual economic risks and rewards. These entities have commonly been referred to as special purpose entities. The Interpretation provides guidance related to identifying variable interest entities and determining whether such entities should be consolidated. It

**Boardwalk Regency Corporation (Caesars Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts in thousands)**

also provides guidance related to the interest in newly consolidated variable interest entities and requires disclosures for both the primary beneficiary of a variable interest entity and other beneficiaries of the entity. Implementation of this Interpretation did not have a material impact on the Company's financial statements, as the Company does not have any variable interest entities.

**Income taxes**

Taxable income or loss of the Company is included in the consolidated Federal income tax return of CEI. The Company provides for income taxes by applying the respective state and federal statutory rates to pre-tax financial statement income. The corresponding liability or receivable is credited or charged to its corporate parent. Deferred income taxes and liabilities for temporary differences between the carrying amounts for financial reporting and income tax purposes, if any, are accounted for by CEI in accordance with the tax sharing agreement between CEI and the Company.

**New Jersey tax legislation**

The New Jersey State Legislature passed a bill to increase taxes on the New Jersey casino industry, beginning in the State's fiscal year 2004 (starting July 1, 2003). Included in this legislation is a tax on net profits, taxes on certain complimentaries, and increases in parking, rooms and other fees. Profits tax expense is reflected in the provision for income taxes. Other taxes are reflected in selling, general and administrative expenses.

**Casino Reinvestment Development Authority**

The New Jersey Casino Control Act provides, among other things, for an assessment of licensees equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company has satisfied this investment obligation by (i) investing in qualified eligible direct investments, (ii) making qualified contributions or (iii) depositing funds with the Casino Reinvestment Development Authority ("CRDA"). Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have varying terms of up to fifty years and bear interest at below market rates. The Company records a charge to reflect the estimated realizable value of its CRDA investments.

The twelve Atlantic City casino properties (the "AC Industry") and the CRDA have entered into an agreement with the New Jersey Sports & Exposition Authority (the "NJSEA") to provide funding to subsidize New Jersey's horseracing industry. In exchange for this funding, the NJSEA and the three active New Jersey racetracks will not conduct any casino gaming at the racetracks prior to January 1, 2009. As part of the agreement, the AC Industry will provide \$34 million over a four year period to the NJSEA and must deposit another \$62 million into the Casino Expansion Fund

**Boardwalk Regency Corporation (Caesars Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
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(managed by the CRDA). The \$62 million will be derived from funds either currently on deposit or to be deposited with the CRDA pursuant to each casino property's investment obligation. The Company's obligation is equal to its fair-share of AC Industry casino revenues. The Company estimates this commitment over the four year period to be a total of \$3,700, the first payment of which was made November 2004. The total estimated commitment will be charged to operations on a straight line basis through January 1, 2009. Once the Company meets its deposit obligation related to its fair share of the \$62 million, the Company is eligible to receive funds from the Casino Expansion Fund for qualified construction expenditures. The Company has until June 30, 2014 to submit an application to exhaust its share of the Casino Expansion Fund. Any funds not transferred out of the Casino Expansion Fund by the required date will be transferred to funds on deposit with the CRDA pursuant to its ongoing investment obligations.

**Allocations and transactions with related parties**

The Company transfers cash in excess of its operating needs to CEI on a daily basis. CEI provides the Company with cash advances for capital expenditures and working capital needs.

Certain executive, administrative and support operations of the Company and other CEI affiliates are consolidated, including limousine services, advertising, sales and marketing services, purchasing and other administrative departments. Costs of these operations are allocated to or from the Company either directly or using various formulas based on estimates of utilization of such services. Management believes the methods used to allocate these costs are reasonable.

Beginning with the first quarter of 2004, the Company was allocated from CEI certain expenses, such as information technology, internal audit and risk management, which historically were considered corporate expenses. These expenses are allocated to the Company using various formulas based on estimates of utilization of such expenses. Management believes that the methods used to allocate these costs are reasonable.

**Merger Agreement**

On July 14, 2004, CEI, Harrah's Entertainment, Inc. ("Harrah's") and Harrah's Operating Company, Inc., a wholly-owned subsidiary of Harrah's, entered into an Agreement and Plan of Merger (the "Merger Agreement"), providing for the merger of CEI with and into Harrah's Operating Company, Inc., which would be the surviving corporation.

On March 11, 2005, the stockholders of CEI and Harrah's approved the Merger Agreement. The transaction with Harrah's is still subject to a number of conditions, including, among other things the receipt of all necessary antitrust, gaming and other approvals, and the satisfaction or waiver of all other conditions precedent.

**Boardwalk Regency Corporation (Caesars Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts in thousands)**

**NOTE 2 – RECEIVABLES AND PATRONS’ CHECKS**

Receivables and patrons’ checks as of December 31 consist of the following:

	<u>2004</u>	<u>2003</u>
Casino receivables (net of allowance for doubtful accounts – 2004, \$7,706 2003, \$6,855)	\$ 12,250	\$ 11,585
Other (net of allowance for doubtful accounts – 2004, \$128; 2003, \$352)	5,503	4,756
Due from CEI	100,220	92,787
Due from other affiliates	<u>865</u>	<u>810</u>
	<u>\$118,838</u>	<u>\$109,938</u>

**NOTE 3 - INVESTMENTS, ADVANCES AND RECEIVABLES**

Investments, advances and receivables as of December 31 consist of the following:

	<u>2004</u>	<u>2003</u>
CRDA deposits	\$ 13,081	\$ 15,199
CRDA bonds receivable	3,073	2,893
CRDA Seat License Agreement	4,268	4,742
CRDA Long-term note receivable	839	864
CRDA Donations	461	481
Other, net	<u>20</u>	<u>36</u>
	21,742	24,215
Less: valuation allowance on CRDA investments	<u>(5,664)</u>	<u>(6,319)</u>
	<u>\$ 16,078</u>	<u>\$ 17,896</u>

**Boardwalk Regency Corporation (Caesars Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts in thousands)**

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment as of December 31 consist of the following:

	<u>2004</u>	<u>2003</u>
Land	\$ 117,908	\$ 118,090
Buildings and improvements	523,952	550,784
Furniture, fixtures and equipment	228,643	228,321
Construction in progress	<u>51,602</u>	<u>6,169</u>
	922,105	903,364
Less accumulated depreciation and amortization	<u>(389,603)</u>	<u>(376,063)</u>
	<u>\$ 532,502</u>	<u>\$ 527,301</u>

**NOTE 5 – OTHER ASSETS**

During May 2003, the Company entered into an agreement to lease the Ocean One Pier (the “Pier”) to developers for an initial term of 75 years. The 75 year term commences upon completion of the Pier’s construction which is currently expected to be in the first quarter 2006. The lease agreement provides for the repayment of certain qualified pier development costs incurred by the developers.

As financing for the qualified pier development costs, the Company and certain of its Atlantic City affiliates entered into a credit agreement (the “Credit Agreement”) with the CRDA. The Credit Agreement provides for funding from the CRDA of up to \$33 million for qualified development costs. The CRDA funding will come from amounts either currently on deposit or to be deposited with the CRDA pursuant to the Company’s and its affiliates’ investment obligations. Repayments to the developers are limited to the funds received from the CRDA. For the twelve months ended December 31, 2004, the Company has received \$4,674 of previously deposited funds from the CRDA. Upon receipt of these funds, the Company recognized a reduction of \$1,543 in reserves, to reflect its current estimated realizable value of its remaining CRDA investments.

As of December 31, 2004, the Company repaid the developers approximately \$25.0 million through CRDA funds previously deposited by an affiliate. These payments are considered lease incentive payments and will be amortized over the life of the lease.

**Boardwalk Regency Corporation (Caesars Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts in thousands)**

**NOTE 6 – NOTES PAYABLE**

At December 31, 2000, the Company entered into an uncommitted \$50,000 credit facility with Caesars Entertainment Finance Corporation (CEFC), a wholly owned subsidiary of CEI. At December 31, 2004 and 2003, respectively, there was no outstanding balance.

**NOTE 7 - OTHER ACCRUED EXPENSES**

Other accrued expenses as of December 31 consist of the following:

	<u>2004</u>	<u>2003</u>
Accrued payroll and benefits	\$13,125	\$16,474
Insurance claims	3,303	4,035
Real estate taxes	3,136	3,136
Lease termination fee	8,000	-
Other	<u>9,195</u>	<u>8,039</u>
	<u>\$36,759</u>	<u>\$31,684</u>

**NOTE 8- OTHER CURRENT LIABILITIES**

Other current liabilities as of December 31 consist of the following:

	<u>2004</u>	<u>2003</u>
Due to affiliates	\$57,024	\$52,824
Unredeemed slot promotions liability	1,387	1,771
Unredeemed chip and token liability	2,930	2,737
Connection Card liability	3,379	4,554
Other	<u>1,874</u>	<u>1,804</u>
	<u>\$66,594</u>	<u>\$63,690</u>

**NOTE 9 - LONG-TERM DEBT - DUE TO AFFILIATES**

Long-term debt - due to affiliates as of December 31, 2004 and 2003, respectively consists of a Caesars Entertainment Finance Corp note due December 31, 2010 at 8.50%.

**Boardwalk Regency Corporation (Caesars Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts in thousands)**

**NOTE 10 – LONG-TERM DEBT, OTHER**

Long-term debt, other as of December 31 consists of the following:

	<u>2004</u>	<u>2003</u>
Mortgage Note due October 15, 2011		
Interest at 10.0%	\$ 692	\$ 720
Capitalized lease obligation, net of amounts representing interest	<u>-</u>	<u>33</u>
	692	753
Less: current maturities	<u>(31)</u>	<u>(61)</u>
	<u>\$ 661</u>	<u>\$ 692</u>

**NOTE 11 – CHARGES FROM AFFILIATES - MANAGEMENT FEE**

The Company has recorded expenses for the three months ended December 31 from CWI and affiliates as follows:

		<u>2004</u>	<u>2003</u>
<u>Affiliate</u>	<u>Transaction</u>		
Caesars World, Inc.	Management fee	\$ 3,425	\$ 4,105
Caesars Palace Corp.	Trade name fee	<u>1,614</u>	<u>1,635</u>
		<u>\$ 5,039</u>	<u>\$ 5,740</u>

The Company has recorded expenses for the twelve months ended December 31 from CWI and affiliates as follows:

		<u>2004</u>	<u>2003</u>
<u>Affiliate</u>	<u>Transaction</u>		
Caesars World, Inc.	Management fee	\$15,884	\$16,678
Caesars Palace Corp.	Trade name fee	<u>6,484</u>	<u>6,442</u>
		<u>\$22,368</u>	<u>\$23,120</u>

**Boardwalk Regency Corporation (Caesars Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts in thousands)**

**NOTE 12 - NONOPERATING INCOME (EXPENSE) - NET**

Nonoperating income (expense) for the three months ended December 31 consists of the following:

	<u>2004</u>	<u>2003</u>
Interest income	\$ 341	\$ 69
Lease termination fee	(8,000)	-
Gain (loss) on disposal of equipment	<u>45</u>	<u>48</u>
	<u><u>\$ (7,614)</u></u>	<u><u>\$ 117</u></u>

Nonoperating income (expense) for the twelve months ended December 31 consists of the following:

	<u>2004</u>	<u>2003</u>
Interest income	\$ 561	\$ 288
Impairment loss	(5,343)	-
Lease termination fee	(8,000)	-
Gain (loss) on disposal of equipment	<u>111</u>	<u>479</u>
	<u><u>\$ (12,671)</u></u>	<u><u>\$ 767</u></u>

During the third quarter, the Company entered into an agreement to sell an apartment building in Atlantic City for \$16,500. As a result of the pending sale, the Company recorded an impairment loss of approximately \$5,343 which is reflected in Nonoperating Expense on its Statements of Income, in accordance with Statement of Financial Accounting Standard No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets, and for long-lived assets to be disposed of, and expands current reporting for discontinued operations to include disposals of a "component" of an entity that has been disposed of or is classified as held for sale. On October 18, 2004 the Company closed on the transaction.

In December 2004, the Company entered into an agreement to terminate a lease with a lessee. Under the terms of the agreement, the Company will pay the lessee an early termination fee of \$8,000. This early termination fee has been recorded as a current liability on the balance sheets and as a non-operating charge on the statements of income.

## STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2 (b) 1-5 during the quarter.



Signature

Vice President/Controller

Title

#6908-11

License Number

On Behalf Of:

Boardwalk Regency Corporation

Casino Licensee

TRADING NAME OF LICENSEE: BOARDWALK REGENCY CORPORATION (Caesars Atlantic City)

## SCHEDULE OF RECEIVABLES AND PATRONS' CHECKS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2004

(UNAUDITED)  
(\$ IN THOUSANDS)

### ACCOUNTS RECEIVABLE BALANCES

LINE (a)	DESCRIPTION (b)	ACCOUNT BALANCE (c)	ALLOWANCE (d)	ACCOUNTS RECEIVABLE- (e) NET OF ALLOWANCE
	<b>Patrons' Checks:</b>			
1	Undeposited patrons' checks .....	\$ 8,497		
2	Returned patrons' checks .....	11,459		
3	Total patrons' checks .....	19,956	\$ (7,706)	\$ 12,250
4	Hotel Receivables .....	3,890	(128)	3,762
	<b>Other Receivables:</b>			
5	Receivables due from officers and employees .....	4		
6	Receivables due from affiliates .....	101,085		
7	Other accounts and notes receivables .....	1,737		
8	Total other receivables .....	102,826	---	102,826
9	Totals (Form CCC 205) .....	\$ 126,672	\$ (7,834)	\$ 118,838

### UNDEPOSITED PATRONS' CHECKS ACTIVITY

LINE (f)	DESCRIPTION (g)	AMOUNT (h)
10	Beginning Balance (January 1) .....	\$ 8,886
11	Counter checks issued (excluding counter checks issued through transactions relating to consolidations, partial redemptions, substitutions, and patrons' cash deposits) .....	280,097
12	Checks redeemed prior to deposit (excluding the unredeemed portion of counter checks redeemed through partial redemptions, and excluding checks redeemed through transactions relating to consolidations, substitutions, and patrons' cash deposits) .....	(263,569)
13	Checks collected through deposits .....	(7,732)
14	Checks transferred to returned checks .....	(9,185)
15	Other adjustments .....	---
16	Ending Balance .....	\$ 8,497
17	"Hold" Checks Included In Balance On Line 16 .....	\$ 0
18	Provision For Uncollectible Patrons' Checks .....	\$ 2,652
19	Provision As A Percent Of Counter Checks Issued .....	0.95%

Under penalties of perjury, I declare that I have examined this report, and to the best of my knowledge and belief, it is true and complete.

March 31, 2005

Date



Signature

Vice President/Controller

Title of Officer

# ANNUAL EMPLOYMENT AND PAYROLL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2004

(\$ in thousands)

LINE (a)	DEPARTMENT (b)	NUMBER OF (c) EMPLOYEES	SALARIES AND WAGES		
			(d) OTHER EMPLOYEES	(e) OFFICERS & OWNERS	(f) TOTALS
	CASINO				
1	Administration .....	0			
2	Gaming .....	1,047			
3	Slots .....	170			
4	Casino accounting .....	282			
5	Simulcasting .....	16			
6	Other .....	0			
7	Total-casino .....	1,515	\$ 38,868	\$ 513	\$ 39,381
8	ROOMS .....	360	7,683	218	7,901
9	FOOD AND BEVERAGE .....	1,253	23,002	193	23,195
	OTHER OPERATED DEPARTMENTS				
10	Parking Operations .....	117	1,443		1,443
11	Health Club / Pool Services .....	7	182		182
12	Telephone room .....	22	521		521
13	Retail stores .....	21	433		433
14	Coat Check .....	3	64		64
15					
16					
17					
18					
19					
	ADMINISTRATIVE AND GENERAL				
20	Executive office .....	10	170	2,612	2,782
21	Accounting and auditing .....	46	1,335	168	1,503
22	Security .....	219	6,262		6,262
23	Other administrative and general department .....	48	1,558		1,558
24	MARKETING .....	226	7,315	1,288	8,603
25	GUEST ENTERTAINMENT .....	29	1,790		1,790
26	PROPERTY OPERATION AND MAINTENANCE .....	344	9,695		9,695
27	TOTALS - ALL DEPARTMENTS .....	4,220	\$ 100,321	\$ 4,992	105,313

TRADING NAME OF LICENSEE: BOARDWALK REGENCY CORPORATION (Caesars Atlantic City)

**ANNUAL EMPLOYMENT AND PAYROLL REPORT  
SIGNATURE PAGE**

FOR THE YEAR ENDED DECEMBER 31, 2004

Under penalties provided by law, I declare that I have examined this report, and to the best of my knowledge and belief, it is true and complete.

  
\_\_\_\_\_  
Signature

March 31, 2005  
Date

Vice President/Controller  
Title

3/18/05

TRADING NAME OF LICENSEE CAESARS ATLANTIC CITY**GROSS REVENUE ANNUAL TAX RETURN**

FOR THE YEAR ENDED DECEMBER 31, 2004

Line

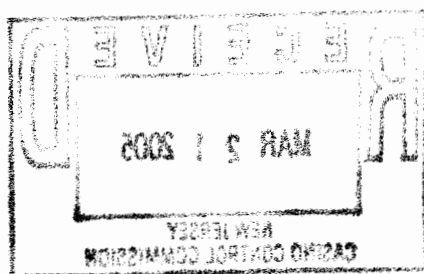
## CASINO WIN:

1.	Table and Other Games Win.....	\$ 146,543,321
2.	Slot Machines Win.....	349,422,405
3.	Total Win.....	495,965,726
4.	Recovery for Uncollectible Patrons' Checks.....	
5.	Gross Revenue (line 3 plus line 4).....	495,965,726
6.	Tax on Gross Revenue - Reporting Year (8% of line 5).....	39,677,258
7.	Audit or Other Adjustments to Tax on Gross Revenues in Prior Years .....	52,376
8.	Total Taxes on Gross Revenue (the sum of lines 6 and 7).....	39,729,634
9.	Total (Deposits) Made for Tax on Reporting Year's Gross Revenue.....	(39,677,258)
	Settlement of Prior Years' Tax on Gross Revenue	
10.	Resulting from Audit or Other Adjustments - (Deposits) Credits .....	(52,376)
11.	Gross Revenue Taxes Payable (the net of lines 8, 9 and 10) .....	\$ -

Under penalties of perjury, I declare that I have examined this Gross Revenue Annual Tax Return and to the best of my knowledge and belief, the information contained in this return is accurate.

3/16/05  
Date

  
Signature



Casino Controller  
Title of Officer